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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

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Another week, another wait, and still no cut in the discount rate--at least not as of our Friday noon deadline. Once again, credit market action this week was dominated by the ebb and flow of discount rate rumors, with only very modest net rate moves. Rates rose early on, responding to the lack of a discount rate cut last week and to some unpalatable money data on Monday. After mid-week, however, rates eased back, led by a decline in the Fed funds rate that revived hopes for an imminent discount rate cut. By Friday noon, most rates were a shade below week-earlier levels, with Fed funds at 9.0% from the recent 9.25%-9.50% range.

Many market participants are betting on a discount rate cut this afternoon, a key to the improved market tone late this week. If a cut doesn't come today, a lot of people will be disappointed, and markets will likely weaken until the next round of discount-rate-cut hopes takes hold--though it will be interesting to see how markets react if Fed funds stay down at 9% with no discount rate cut. If a cut does come today, some cheering is likely, but this will be restrained by the fact that a half-point cut is already largely discounted in current market yields.

A discount rate cut today could leave markets at loose ends, once the initial relief is over. This is because it is harder to form expectations on Fed policy since the Fed de-emphasized short-term movements in M1. Mr. Volcker announced that shift after the October 5 Federal Open Market Committee meeting, attributing it to technical factors that were temporarily distorting M1. The shift cheered everyone enormously, but it also raised big questions. How long is temporarily? How much weight now goes to M2 and the other M's, how much stays with M1, and how much goes to other factors (whatever they may be)? How much money growth (in M1, M2, or MX) is tolerable, under the new rules? To sum it up, what are those new rules of the game, to the extent that any rules exist in a hard-and-fast form?

Some of these questions may be answered with this afternoon's release of the minutes of the October 5 FOMC meeting, but major uncertainties on Fed policy will likely remain. That makes discount rate changes--the most unequivocal sign of Fed intentions--of particular importance, and markets are likely to remain focused on possible discount rate moves. The Fed funds rate is also important (it is of more than passing interest that the recent drop in funds immediately followed the November FOMC meeting); but for now at least, the discount rate has pride of place. Because of this, a discount rate cut today could be followed by a brief hiatus and then by a rapid return to the markets' recent dominant activity--waiting for the next discount rate cut.

So much for this week's edition of the discount rate chronicles; we hope for a somewhat broader focus soon, and would like to take this opportunity to wish our readers a very happy Thanksgiving.

Anne Parker Mills

Irving Trust

Market Yields

	11/19/82 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.00%	12.00%	16.50%
Effective since	10/13/82		
Discount Rate at Federal Reserve Bank	9.50	9.50	13.00
Federal Funds	9.00	9.50	12.50
Repurchase Agreements	8.88	9.13	11.00
U.S. Treasury Issues			
Bills			
3 months	8.34	8.48	10.43
6 months	8.63	8.92	11.27
1 year	8.98	9.15	11.59
Coupons			
2 years	9.73	9.81	12.16
4 years	10.21	10.29	12.86
7 years	10.53	10.58	13.20
10 years	10.40	10.54	13.04
Long Bond	10.32	10.42	13.03
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.85	8.95	11.80
3 months	8.95	9.10	11.75
6 months	9.05	9.30	11.90
1 year	9.40	9.75	12.40
Banker's Acceptances			
1 month	8.90	8.85	11.71
3 months	9.00	8.90	11.63
6 months	9.05	8.95	11.75
Eurodollar Deposits			
1 month	9.56	9.63	12.38
2 months	9.63	9.75	12.44
3 months	9.81	9.88	12.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.50	8.75	11.38
1 month	8.75	8.75	11.38
3 months	8.63	8.50	11.38
Bank Holding Companies			
1 month	8.63	7.75	11.25
Dealer Placed:			
3 months	8.38	8.13	11.70
New AA Corporate Utility Bond	11.80	11.90	15.38
Tax Exempt			
6 month Project Notes	4.85	4.00	6.60
1 year AAA Bond	5.50	5.50	7.75
5 year AAA Bond	7.00	7.00	8.40
20 year AAA Bond	9.50	9.40	11.00

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629